

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-01

INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06 SP-02

CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 DODE-00 PA-02 PRS-01 PM-04 /100 W

----- 117953

R 132050Z MAY 76

FM AMCONSUL MONTREAL

TO SECSTATE WASHDC 7514

INFO AMEMBASSY OTTAWA

AMCONSUL QUEBEC

UNCLAS MONTREAL 596

E. O. 11652: N/A

TAGS: EFIN, ECON, CA

SUBJ: MONTREAL REACTION TO QUEBEC BUDGET

REF: QUEBEC 113, MONTREAL 526 (NOTAL)

1. EDITORIAL COMMENT IN MONTREAL PRESS MAINLY CRITICAL OF BUDGET. THE INCREASE IN HEALTH INSURANCE PREMIUMS AND THE FAILURE TO INDEX INCOME TAX CAME IN FOR STRONGEST CRITICISM. MONTREAL STAR OF MAY 12 DID NOT DISPUTE GOQ'S FINANCIAL TROUBLES BUT FOUND SOLUTIONS "RETROGRADE AND REGRESSIVE". LA PRESSE EDITORIAL OF SAME DATE ATTACKED GOQ FOR FAILURE TO CONTROL PUBLIC SPENDING, FOR ITS FAILURE TO INDEX TAXES ON INCOME AND FOR ITS ADOPTION OF INDIRECT TAXES. LE DEVOIR EDITORIAL OF MAY 13 AGREED THAT MONTREAL MUST BUDGET FOR SHARE OF OLYMPICS DEFICIT. HOWEVER GOQ DECISIONS WITH RESPECT TO HEALTH INSURANCE PREMIUMS AND NON-INDEXATION OF INCOME TAX WILL BE HARDEST ON LOW INCOME GROUPS. LE JOUR OF MAY 13 SAW GOQ AS EXERCISING LIMITED DISCRETION IN BUDGET MATTERS, SQUEEZED AS IT IS BETWEEN THE "MEGALOMANIA" OF MAYOR DRAPEAU AND THE "RESTRICTIVE DECISIONS" OF THE FEDERAL GOVERNMENT. HOWEVER IT SHOULD HAVE USED ITS LIMITED AUTHORITY IN A "SOCIALY UNCLASSIFIED

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ACCEPTABLE" MANNER. THE GOQ SHOULD HAVE RESORTED TO "THE MOST

EQUITABLE TAX THERE IS, THAT ON INCOME".

2. GOC BUDGET WILL REQUIRE SUBSTANTIAL MODIFICATIONS IN MONTREAL BUDGET WHICH BECAME EFFECTIVE MAY 1. CITY PLANNERS HAVE AGAIN BEEN TOLD THEY MUST BUDGET FOR \$200 MILLION SHARE OF OLYMPICS DEFICIT. THIS ITEM, AS REPORTED TO OTTAWA IN OUR 526, APPEARED IN A RECEIVABLES ACCOUNT IN THE BUDGET AS MAYOR CONTINUES INSIST GAMES WILL BE SELF-FINANCING. CITY BUDGET ALSO TRANSFERRED 20 CENTS PER HUNDRED DOLLARS PROPERTY VALUATION FROM SCHOOL TAXES TO MUNICIPAL COFFERS BUT GOQ BUDGET REDUCED THIS TO FIVE CENTS PER ONE HUNDRED DOLLARS VALUATION. THIS WILL MEAN INCREASE IN MONTREAL PROPERTY TAXES UNLESS CITY CAN FIND OTHER SOURCE OF FUNDS. THE CITY MAY THUS HAVE TO ANNOUNCE ITS FIRST TAX RATE INCREASE IN FOUR YEARS. NEW GOQ BUDGET AUTHORIZES IT TO IMPOSE A CITY PROPOERTY TRANSFER TAX BUT THIS WILL HIT HARDEST ON SENIOR CITIZENS WHO PLAN ON SALE OF HOMES TO SUPPLEMENT RETIREMENT INCOME. CITY LEADERS ARE RESERVING ALL COMMENT UNTIL THEY HAVE HAD A CHANCE TO DISCUSS MATTERS WITH GOQ FINANCE MINISTER. THERE HAS BEEN SPECULATION IN THE PRESS THAT FAILURE OF THE GOQ TO GO ALONG WITH MAYOR DRAPEAU'S BUDGET IS AN INDICATION THAT HIS LINES OF COMMUNICATION TO THE POWER CENTERS IN QUEBEC ARE WEAKENING. HOWEVER ALL THE BLAME IS NOT DIRECTED AT THE MAYOR. SOME COMMENTATORS HAVE CRITICIZED THE PROVINCE FOR DENYING TO THE CITY THE AID IT NEEDS IN DEALING WITH ITS MASSIVE PROBLEMS OF GROWTH AND DEVELOPMENT.

3. LE JOUR, OFFICIAL ORGAN OF SEPARATIST PARTI QUEBECOIS, HEADLINED ON MAY 13 THAT GOQ BUDGET CALLS FOR BIGGEST TAX INCREASE IN QUEBEC HISTORY. LE JOUR OF SAME DATE REPORTED THAT PQ LEADER RENE LEVESQUE DID NOT SEE GOQ BUDGET AS AN INDICATION OF EARLY ELECTIONS. HOWEVER A LEADING MONTREAL BANKER TOLD CONSUL GENERAL THAT BUDGET IS DEFINITELY "AN ELECTION DOCUMENT," THOUGH THE ELECTION WOULD PROBABLY NOT BE UNTIL AFTER THE OLYMPIC GAMES.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: BUDGETS, PROVINCIAL GOVERNMENT, GOVERNMENT REACTIONS, ECONOMIC REPORTS
Control Number: n/a
Copy: SINGLE
Draft Date: 13 MAY 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976MONTRE00596
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760186-0772
From: MONTREAL
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760558/aaaabxyk.tel
Line Count: 96
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: 76 QUEBEC 113, 76 MONTREAL 526
Review Action: RELEASED, APPROVED
Review Authority: CollinP0
Review Comment: n/a
Review Content Flags:
Review Date: 22 JUN 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <22 JUN 2004 by wolfsd>; APPROVED <24 JAN 2005 by CollinP0>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: MONTREAL REACTION TO QUEBEC BUDGET
TAGS: EFIN, ECON, CA
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006